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RUEHBU/AMEMBASSY BUENOS AIRES PRIORITY 3713
RUEHCV/AMEMBASSY CARACAS PRIORITY 1352
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RUEHMN/AMEMBASSY MONTEVIDEO PRIORITY 9691
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RUEHSG/AMEMBASSY SANTIAGO PRIORITY 2238
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TAGS: [PGOV](#) [PREL](#) [PINR](#) [ETRD](#) [PE](#)
SUBJECT: PERU-CHILE RELATIONS: ANOTHER ROUGH PATCH

REF: A. LIMA 0072
[1](#)B. LIMA 1865

Classified By: DCM James Nealon for reasons 1.4b and d.

[1](#)1. (C) Summary: In early March, the Garcia government issued an executive decree that expanded the existing economic accord between Peru and Chile into a formal free-trade agreement, sparking an outcry from local opposition parties and, subsequently, a strong Chilean counter-response. According to Chilean Embassy contacts, (then) Foreign Minister Foxley's characterization of Peruvian politicians as "stuck in the past" reflects deep frustration with the Peru-Chile relationship. Our Foreign Ministry contacts have called Chile's reaction unhelpful. With election season imminent in both countries, and the next steps in the international arbitration of the bilateral maritime border dispute coming up, the renewed friction is unlikely to subside soon. That said, Chile and Peru continue to enjoy a booming trade and investment relationship, and President Garcia, Trade Minister Araoz, and Foreign Minister Belaunde have all made public statements intended to dampen the current spat. End Summary.

Peru-Chile FTA Amendment Sparks Dispute

[1](#)2. (U) In early March, the Garcia Administration issued an executive decree expanding the existing bilateral Economic Complementation Agreement into a formal Free Trade Agreement (FTA). This move sparked an outcry from Peruvian opposition parties and a heated public exchange between the GOP and GOC. The spat began when the opposition publicly criticized the FTA and a group of 34 members of Congress, led by the opposition Peruvian Nationalist Party, claimed the change required congressional approval and requested the courts to declare the FTA unconstitutional. (Note: The FTA did not include any new tributes or tariffs and therefore did not require Congressional approval. End Note) Some critics, including (pro free-trade) former President Alejandro Toledo, have focused on the legality of Garcia's decree. But most are ideologically opposed to free trade and reflexively anti-Chilean, and have deployed nationalistic rhetoric to attack the very notion of an FTA with Chile, in some cases claiming it will cement existing disparities that favor Chile in the bilateral trade relationship. PNP leader and former presidential candidate, Ollanta Humala, has announced plans to lead protests of the agreement in the southern Peruvian region bordering Chile.

[1](#)3. (C) The overheated response on the part of certain

Peruvian political leaders then provoked a Chilean counter-reponse, which has fueled a kind of chain reaction. Chilean Foreign Minister Alejandro Foxley (who resigned March 12) publicly scorned some Peruvian politicians as "stuck in the past." President Garcia retorted that Foxley had been compelled to make such harsh comments in order to distract the Chilean people from the fact that Peru is surpassing Chile in economic growth and will probably win ongoing arbitration of a long-standing maritime border dispute in the Hague.

Chilean Embassy Frustrated With Relationship

¶4. (C) According to our Chilean Embassy contacts, Foxley's public outburst reflects deep frustration with the current state of the Peru-Chile relationship. Describing recent ebbs and flows, one Embassy officer told us that relations had slowly improved after the low point of Peru's submission of the maritime border dispute to international arbitration in January 2008 (Ref A); it then unraveled again in December after the jarring, jingoistic remarks of Peru's then army commander (Ref B). Another Chilean diplomat complained that since December Chile has experienced a steady stream of invective from Peruvian media and opposition groups. Our diplomatic contacts singled out Toledo Foreign Minister Manuel Rodriguez Cuadros -- an active-duty diplomat on leave-of-absence who advised nationalist presidential candidate Ollanta Humala in 2006 -- for particular opprobrium. They said his recent attacks suggest he is angling for a senior foreign policy job under the next government. While Chilean diplomats did not explicitly blame Garcia for deteriorating relations, they judged him unlikely to risk his domestic political standing with (intrinsically controversial) overtures that could relax tensions.

The GOP Foreign Ministry Perspective

¶5. (C) Our GOP Foreign Ministry contacts were perplexed by Minister Foxley's critique of Peruvian politicians and saw them as unhelpful. MFA Director General for South America Jose Luis Salinas told Poloffs that domestic politics on both sides of the border best explained the current "tit for tat" dynamic, but did not understand why the usually statesmanlike Foxley had helped fuel the fire in this case, speculating that certain Peruvian politicians had managed somehow to get under his skin. MFA officials acknowledged the current strain in the relationship, and argued that the Peruvian media had probably exacerbated tensions by blowing what were essentially minor squabbles out of proportion.

Comment: Hague Process and Election Cycles Suggest Continued Tensions

¶6. (C) With the GOP set to submit its maritime border arguments to the Hague international court this month, and with election season around the corner in both countries, we do not expect tensions to subside or relations to warm in the near future. On a positive note, a recent Lima poll indicated that nearly 60% of respondents favored the Chile FTA, and nearly half think both countries will benefit. Chile and Peru continue to enjoy a booming trade and investment relationship which the GOP has generally sought to foster and deepen. For example, President Garcia (apart from his pointed response to Foxley), Trade Minister Araoz, and Foreign Minister Belaunde have all made public statements intended to dampen the current spat.

MCKINLEY